

The Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)

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1. Summary of operations implemented using FILP funds

For the purpose of maintaining and improving educational conditions of private schools diminishing the education-related economic burden on students and promoting sound management of private schools, the Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates needed to expand and improve premises buildings and other facilities of private schools.

Note: Operations that are outside of FILP are operations such as the granting of subsidies for current expenses of private universities etc., the granting of subsidies, receipt and distribution of contributions, collection and granting of funds, information assistance concerning management and educational conditions, and the granting of expenses for reducing or waiving tuition fees.

2. Amount of lending under FY2022 FILP

(Unit: billion yen)

FY2022 FILP	Estimated outstanding amount of FILP lending at the end of FY2021
22.1	326.0

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-19.7	-19.6	+0.1
3. Opportunity cost of capital investments, etc.	15.8	17.1	+1.3
Total (1+2+3=policy cost(A))	-3.9	-2.4	+1.4
Analysis period (years)	31 years	31 years	-

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2021	FY2022	Fluctuation
(A) Policy cost (previously cited)	-3.9	-2.4	+1.4
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	20.1	21.1	+1.0
2) Policy cost expected to be newly accrued during the analysis period	-23.9	-23.5	+0.4
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-19.7	-19.6	+0.1
Opportunity cost of surplus, etc.	-4.2	-3.9	+0.3
Opportunity cost of capital investments, etc.	-	-	-

(5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-2.4	-1.8	+0.6	-	-11.4	+12.0

(A) Policy cost (previously cited)	Case of a 1% increase in loan write-offs	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-2.4	-2.4	+0.1	-	+0.1	-

(Note) Components in each column may not add up to the total because of rounding.

*1 Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2021	FY2022	Simple fluctuation
		Simple comparison (before adjustment)	-3.9	-2.4
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2022 analysis)	-4.0	-3.0	+1.0
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2021)			Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in administrative cost accompanying new loans (+1.8 billion yen)

- Increase in cost due to the revision of estimated FY2021 loans and borrowings (+1.6 billion yen)

- Others (increase in cost due to increase in loan losses, etc.) (+0.4 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to interest rate gap for new loans provided in FY2022 (-2.8 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2022 (previously cited)	-2.4
1) Prepayments	0.2
2) Loan losses	0.1
3) Others (including profit spread)	-2.7

4. Outline of estimation and project prospect employed in the analysis

- 1) Subjected to estimation: Lending by the Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)
- 2) Size of operations subjected to estimation: Outstanding loans at the end of FY2020 at 543.7 billion yen, loans planned in FY2021 at 60.0 billion yen, loans planned in FY2022 at 57.0 billion yen
- 3) Analysis period: 31 years from FY2022 to FY2052 when the collection of longest loans will be completed
- 4) Given that prepayments (without compensation) are planned at 0.5 billion yen for FY2022, those in FY2023 and thereafter are estimated by multiplying the balance of long-term loans at the beginning of each fiscal year by the estimated prepayment ratio of 0.09% for FY2022. Prepayments with compensation (introduced in October 1998) are projected at 2.0 billion yen for each fiscal year, based on past results. Relevant compensation revenues are also taken into account.
- 5) Of loans that were classified as those that could potentially, virtually or actually bankrupt borrowers at the end of FY2020, it is projected that 5.1 billion yen in irrecoverable loans will be written off in the period from FY2023 through FY2034. In addition, new loans in arrears emerging in FY2023 and thereafter are calculated for each of the years with the annual increase projected at 0.18%, based on annual growth in loans that could potentially, virtually or actually bankrupt borrowers for FY2016-2020. Of the new loans in arrears, it is projected that 0.7 billion yen in irrecoverable loans will be written off in the period from FY2023 through FY2050. At the end of FY2020, risk management loans stood at 6.5 billion yen and allowance for loan losses at 5.8 billion yen (Allowance for loan losses/total loans = 1.05%).

FY	Result				Estimated 2021	Planned 2022	Assumptions for calculation 2023 and on
	2017	2018	2019	2020			
Prepayment ratio	0.34%	0.02%	0.00%	0.02%	0.09%	0.09%	After FY2023: 0.09%
Loan write-off ratio	0.01%	-	-	-	-	-	Average write-off rate at 0.14% for FY2023-2052

5. Reasons for granting of subsidies, mechanism and underlying laws

Subsidies, etc. for projects under the Fiscal Investment and Loan Programs are not recorded in the FY2022 budget.

In the past fiscal years, capital investments were applied to make low-interest loans possible to private schools and to cover administrative expenses with its fund management gains.

This capital investment becomes capital of the Corporation as well as financial sources for the Corporation's lending business. Capital investments were applied in FY1952 to FY2001, FY2009 (Supplementary Budgets), FY2011 (Supplementary Budgets), FY2012 (Reserve Fund and Supplementary Budgets), and FY2014 (Supplementary Budgets).

[Underlying laws and regulations]

[Regulations for capital investments]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 5.2: The government shall be able to provide the Corporation with an additional capital investment within the limit of the amount specified in the budget when it recognizes the necessity.

3: When the capital investment prescribed in the preceding clause is made by the government the Corporation shall be able to increase its capital according to the amount of capital invested.

[Regulations with regard to the contribution to the national treasury]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 36: After completing liquidation as provided for in Article 35, Paragraph 1 or Paragraph 2 of the Act on General Rules for Incorporated Administrative Agencies in the last business year of the mid-term target period as provided for in Article 29, Paragraph 2, Item 1 of said Act which is applied mutatis mutandis in Article 26, the Corporation shall contribute to the national treasury the amount equivalent to the surplus in excess of the amount provided for in the orders of the Ministry of Education, Culture, Sports, Science and Technology taking the stability of operation of the subsidized project into account.

<Enforcement Regulations for the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan>

Article 21: The amount provided for in Article 36, Paragraph 1 of the Act which is determined by the orders of the Ministry of Education, Culture, Sports, Science and Technology shall be 2.0 billion yen.

6. Special remarks

1) Most of the policy cost of the Corporation is opportunity cost of investment to maintain low interest rates. The Corporation contributes to maintaining educational condition of private schools reducing economic burden on pupils or students of private schools for education and stabilizing management of incorporated schools.

2) Based on the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan, the related provisions of the Act on General Rules for Incorporated Administrative Agencies has been applied to the medium-term target, medium-term plan, plan for the fiscal year, evaluations, etc. as well as the accounting standards for independent administrative corporations in terms of this Grant Account.

(Reference) Outcome and social and economic benefits of operations

1) Financing results

- Financing from FY1952 to FY2020 (aggregate amount): 3,336.5 billion yen (38,034 cases)
- Financing in FY2020: 35.9 billion yen (91 cases)
- Outstanding balance of financing in FY2020: 543.7 billion yen (2,110 cases)
- Planned financing in FY2022: 57.0 billion yen

2) Main policy purposes and social/economic benefits

Approximately 70% of university students, 30% of high school students and 90% of kindergarten children go to private schools. Considering the importance of roles that private schools play in our public education the Corporation provides long-term loans with lower interest as a part of expenses for expansions of facilities that temporarily require a great amount of money. This encourages vitalization of rich and unique education and research activities of private schools and greatly contributes to the improvement of school education in our country. This leads to the fostering of human resources on whom our future depends, the development of new technologies, and the creation of new industries, and eventually makes a tremendous contribution to the development of our country.

The Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates not available from private financial institutions to meet the fund needs of school juridical persons. Moreover the Corporation provides loans with favorable conditions to meet government policies or loans to carry out emergent measures including disaster restoration. Thus the Corporation's operations greatly contribute to medium and long term stabilization of the management of school juridical persons who establish private schools and to the improvement and expansion of educational environment.

(1) Percentage of school juridical person loans extended to the Corporation for financing

In regard to the conditions of loans to school juridical persons that established high schools or higher level schools as of the end of FY2019 the ratio of Corporation financing when compared to private sector financial institutions is as indicated below.

- 20-year loan term: 68.9%
- 10-year loan term: 12.3%

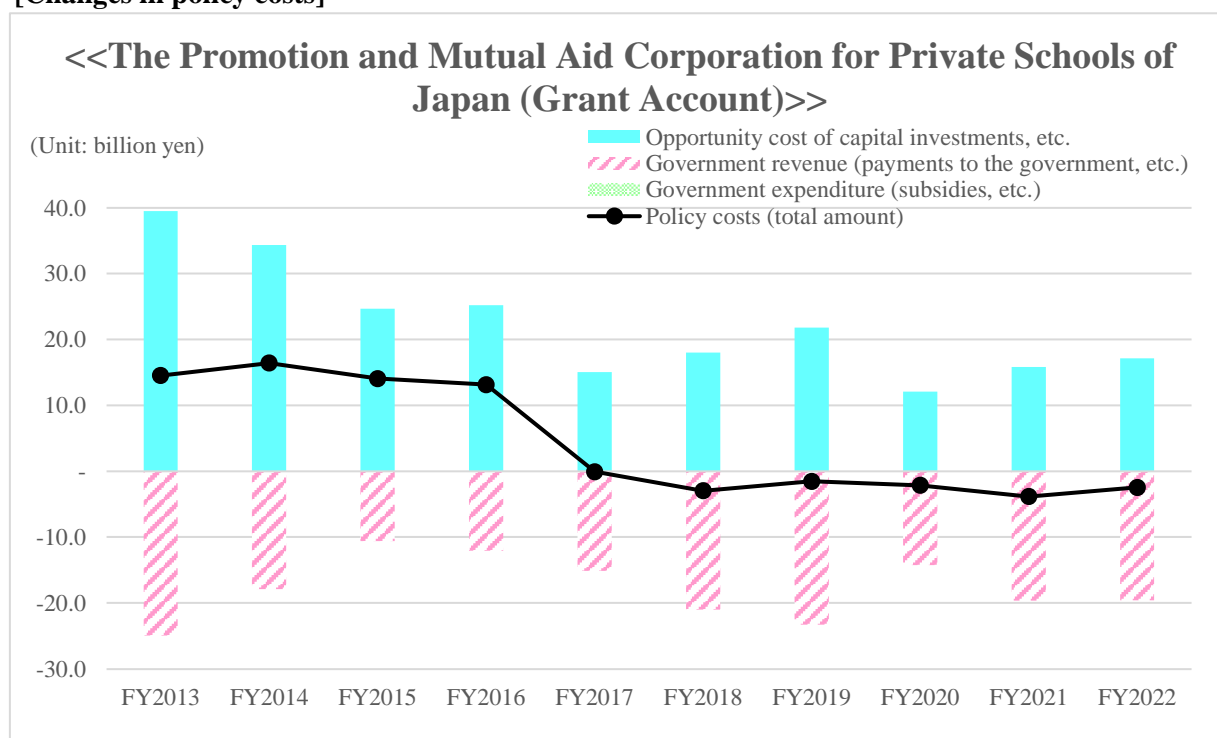
(2) Implementation of emergency policy financing, etc.

Cumulative totals of financing under favorable loan conditions in addressing policy issues (from FY2016 thorough FY2020) are as follows:

- Loans to restoration support from the Great East Japan Earthquake and 2016 Kumamoto Earthquakes: 9.3 billion yen
- Seismic strengthening of private schools: 65.1 billion yen

Overview of policy cost analysis results

[Changes in policy costs]



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Unit: billion yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Policy costs (total amount)	14.5	16.4	14.1	13.1	-0.1	-3.0	-1.5	-2.1	-3.9	-2.4
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-25.0	-17.9	-10.6	-12.1	-15.1	-21.0	-23.3	-14.2	-19.7	-19.6
Opportunity cost of capital investments, etc.	39.5	34.3	24.6	25.2	15.0	18.0	21.8	12.1	15.8	17.1

【Explanation of policy cost trends】

- Policy costs (opportunity cost of capital investments, etc. from the government) from FY2012 to FY2016 have increased due to the effects of receiving government subsidies in the FY2011 and FY2012 supplementary budgets and the FY2012 reserve funds and FY2014 supplementary budgets to respond to the disaster and provide long-term, low-interest loans.
- In FY2017, policy costs declined due to the termination of long-term, low-interest loans for the promotion of antiseismic reinforcement and the government capital investment opportunity cost's drop accompanying a change in the assumed interest rate. Decrease in cost due to new financing in FY2018. Increase in cost due to administrative cost for new financing and decrease in opportunity cost of capital investments through analysis period extension in FY2019. Decrease in cost due to new financing in FY2020 and FY2021. In FY2022, the policy cost rose as opportunity cost for capital investments increased due to a drop in the discount factor.

【FILP agency's self-assessment of policy cost analysis results (FY2022)】

- As loans provided from the Grant Account are based on FILP and other loans and the Corporation's own resources or capital investments from the Government, the loan recovery amount exceeds the loan repayment amount. In the policy cost analysis, therefore, surplus funds are planned to emerge after the termination of new lending in FY2023, leading financial earnings to fluctuate depending on changes in return on investment of surplus funds.
- As the discount factor for FY2022 was lower than the one for FY2021 on a finalized basis, it worked to increase the cost.
- In the case before the negative interest rate policy, the nominal policy cost came to -46.1 billion yen, indicating a cost drop, due to a rise in return on investment from the basic case. Due to a decline in the discount factor, however, the policy cost increased.
- As 108.7 billion yen in capital investments introduced for the lending operation are set to be paid back to the government in the final year of the analysis period, a decline in the discount factor at the time of the payment works to directly raise cost. Comparison between the basic case and the case before the negative interest rate policy indicates that the policy cost after the discount rose by 0.6 billion yen.
- In the case of a 1% increase in loan write-offs, provisions of allowance for loan losses increased from the basic case, leading the policy cost to increase by 60 million yen due to a cut in payments to the government.
- In any case, the FY2022 policy cost analysis indicates a negative policy cost, including the sensitivity analysis results, indicating that lending operations subjected to FILP can be assessed as sound.

(Reference) Financial Statements

Balance Sheet (Grant Account)

(Unit: million yen)

Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)	Item	End of FY2020 (Result)	End of FY2021 (Estimated)	End of FY2022 (Planned)
(Assets)				(Liabilities and net assets)			
Current assets	557,969	565,767	572,050	Current liabilities	61,269	60,208	55,803
Cash and bank deposits	16,757	17,300	17,405	Deposited subsidies, etc.	900	-	-
Securities	2,300	1,300	1,300	Contributions received	14,578	14,593	14,604
Loans receivable	540,997	550,354	556,503	Current portion of bonds for the promotion of private schools	5,000	5,000	-
Allowance for loan losses	- 3,378	- 3,408	- 3,438	Current portion of long-term borrowings	40,381	40,256	40,823
Accounts receivable	1,057	1	1	Accrued payments	228	175	175
Accrued income	228	212	272	Accrued expenses	78	77	95
Allowance for loan losses	- 1	- 1	- 1	Accrued corporate tax, etc.	0	0	0
Contra-accounts for provision for bonuses	6	6	6	Provisions			
Other current assets	2	2	2	Provision for bonuses	92	94	93
Fixed assets	5,630	6,046	5,949	Other current liabilities	12	12	12
Tangible fixed assets	1,336	1,284	1,232	Fixed liabilities	386,405	395,863	406,446
Buildings	640	592	542	Contra-accounts for assets			
Structures	3	3	3	Contra-accounts for assets funded by subsidies	51	39	28
Vehicles and transportation equipment	1	1	1	Long-term contributions received	549	498	463
Tools furniture and fixtures	29	25	22	Private School Promotion bonds	5,000	-	-
Land	663	663	663	Long-term borrowings	379,076	393,520	404,097
Intangible fixed assets	367	365	351	Provisions			
Software	367	365	351	Provision for retirement benefits	1,729	1,805	1,859
Telephone subscription right	0	0	0	(Total liabilities)	447,675	456,070	462,249
Investment and other assets	3,927	4,397	4,367	Capital			
Investment securities	3,559	4,050	4,041	Government investment	108,678	108,678	108,678
Bankruptcy or rehabilitation claims, etc.	2,743	2,743	2,743	Capital surplus			
Allowance for loan losses	- 2,375	- 2,396	- 2,417	Private-sector contributions	5,415	5,416	5,417
Others	0	0	0	Retained earnings	1,831	1,648	1,656
				Reserve fund	1,277	1,715	1,648
				Unappropriated profit or loss (-) for the period	555	- 67	8
				(of this, gross profit or loss (-))	555	- 67	8
				(Total net assets)	115,924	115,742	115,751
Total assets	563,599	571,812	578,000	Total liabilities and net assets	563,599	571,812	578,000

Notes 1. The balance sheet includes amounts for projects other than those subject to the policy cost analysis.
2. Components may not add up to the total because of rounding.

Income Statement (Grant Account)

(Unit: million yen)

Item	FY2020 (Result)	FY2021 (Estimated)	FY2022 (Planned)
Ordinary expenses	427,978	516,508	532,128
Operating expenses	426,087	513,329	531,517
General and administrative expenses	578	623	611
Miscellaneous losses	1,314	2,556	-
Ordinary income	428,117	516,441	532,136
Revenues from subsidies, etc.	398,398	487,151	505,025
Interest on loans	5,308	4,596	4,973
Contributions	23,078	22,111	22,110
Income regarding contra-accounts for provision for bonuses	6	6	6
Reversal of contra-accounts for assets	7	12	12
Financial income	0	0	0
Miscellaneous income	1,320	2,565	9
Ordinary profit or loss (-)	139	- 67	8
Extraordinary losses	1	0	0
Loss on retirement of fixed assets	0	0	0
Loss on profit and loss adjustment for the previous fiscal year	1	-	-
Extraordinary profits	417	-	-
Allowances for loan losses	397	-	-
Gain on profit and loss adjustment for the previous fiscal year	21	-	-
Net profit or loss (-) before tax	555	- 67	8
Corporate tax, residence tax and enterprise tax	0	0	0
Net profit or loss (-)	555	- 67	8
Gross profit or loss (-)	555	- 67	8

Notes 1. The income statement includes amounts for projects other than those subject to the policy cost analysis.
2. Components may not add up to the total because of rounding.